

of the Nation's rural cooperatives was not sought or ascertained.

I was pleased, however, to find that this article has not gone unanswered.

In the Rural Electric Minuteman of December 6, 1963, there appears a point-by-point analysis of the Reader's Digest article answering the charges contained therein. This article in the Rural Electric Minuteman, putting the matter in a more fair perspective, should be read by all of those interested and especially by the writers of the critical Digest article and its readers.

Mr. Speaker, I include the rebuttal article entitled, "Fiction in the Reader's Digest," to be reprinted in the Appendix of the RECORD. The article follows:

FICTION IN READER'S DIGEST

The December issue of the Reader's Digest carries one of the most vicious attacks ever made against the Nation's rural electric cooperative program.

Titled "The REA—A Case Study of Bureaucracy Run Wild," it is another chapter in the multimillion dollar propaganda war being waged nationally against the co-ops by the power companies and their allies.

The authors of the article—yellow journalism at its worst—are listed as Kenneth Gilmore and Eugene Methvin, otherwise unidentified. The Digest also is offering dirt cheap reprints of the mudslinging article, to show how anxious it is to dig the graves of co-ops.

Although the Digest periodically castigates REA as being Government-subsidized (which it is not), the magazine never mentions its lush Government subsidy: a second-class mailing privilege that the Post Office estimated in 1958 saved the Digest some \$5 million a year. It must be considerably more now. This is money that is taken directly from the pockets of U.S. taxpayers and isn't paid back. REA loans are repaid, of course, with interest.

It is also significant that the Digest takes thousands of dollars of advertising each year from the electric companies advertising program (ECAP) that rips into the rural electric at every opportunity. Our late President, John F. Kennedy, described this advertising program as "particularly ugly."

Here are some of the many misrepresentations that appear in the current Digest article. The facts follow the quotes:

Quote: "The REA—A case study of bureaucracy run wild."

Fact: This is not a case study but sheer propaganda put out by private power companies as part of their drive to destroy consumer-owned electric systems. The U.S. Congress—not REA—after hearings and committee investigation voted the largest appropriations in REA's history to meet the growing capital needs of the program. Congress even voted more administrative funds than REA asked for to take care of the growing demands. The only thing running wild is the imagination of the two authors and the Reader's Digest.

Quote: "To bring electricity to farm areas."

Fact: The REA Act clearly specifies "rural areas." Use of "farm areas" is a calculated power company propaganda ruse, carefully planned over the years to distort the true objectives of REA and put artificial limits on the program's operations.

Quote: "REA is a monster eating into the entire electric power industry."

Fact: Rea-financed systems make up only 1 percent of the entire electric business—and this small percentage was created in areas private power companies refused or could not serve. Power companies profits are at an alltime high and their flagrant over-

charges have been verified by the Federal Power Commission. Will the real monsters please stand up?

Quote: "Eating—into the taxpayer's pocketbook as well."

Fact: Tax-producing wealth created by REA-financed electric systems adds over a billion and a quarter dollars annually to the gross national product by creating markets for electric appliances, wiring, and equipment. Grade A milk, universal in the United States, could not be produced economically in quantities but for electric service. Rural homes and farms justify higher evaluations with electric service available, resulting in greater local tax income. Industry is attracted and greater economic activity results. Health standards are raised and hospitals are possible. Defense and transcontinental communication needs are met. For taxpayers outside the rural electric service areas, their tax burdens are lessened by the billions.

Quote: Regarding Florida Eglin Air Force Base, "the Federal subsidy allowed the tax-free co-op to grab business from a long-established taxpaying private utility" and "the Gulf Power Co. offered to furnish the electricity from its nearby power system."

Fact: The Comptroller General of the United States (no admirer of REA) reviewed the REA loan, and said "it is clear that Gulf Power would have to extend its lines approximately 15 miles to serve the radar site." The co-op line is 4 miles away. Regarding taxes, he said, "the Air Force states that taxes paid by private companies are dependent upon profits and may vary from time to time because of numerous factors. Interest paid by the Government also varies. To try and isolate these factors and give them a numerical value would be quite difficult and would involve considerable speculation."

Quote: "Such senseless spending and ruthless squashing of private enterprise are not all that is involved."

Fact: The REA loan is part of a long-range development plan to bring power to areas Gulf Power will not serve under any conditions. The airbase radar load helps the co-op develop its marginal territory and its limited number of consumers into a better system more able to serve future demands.

Gulf's profits and stock ratings along with other power companies are regarded by investors as the "growth stocks" of the financial world. They give the lie to any "ruthless squashing" asserted by Reader's Digest writers.

Quote: "By diverting the contract from the privately owned Gulf Power Co., the REA has deprived the Government of \$43,500 a year in corporation taxes."

Fact: Even the Comptroller General disagreed with this. What Reader's Digest neglected to say is that the Government would be paying this \$43,500 to the power company, in the first place, plus additional tax liability to cover all the company tax subsidies, investment credits and their share of gross profits.

Quote: "Such cases are cropping up across the Nation. In Indiana, tax-fed co-ops are pirating away millions of dollars worth of business from private enterprise."

Fact: This is sheer fantasy. Co-ops are private enterprise, incorporated under State laws. Their loans are restricted by Federal law so as not to compete with power companies. It is the power companies who invade co-op service areas and pirate away business planned to complete area coverage standards. The Government restrictions confine loans to developing areas the power companies would not or could not serve. It is not—and never was—business the power companies wanted. Now that development has grown where power companies want to merge rural systems into their own business and become sole electric suppliers in

the country, they scream that the little co-ops hurt their business. Actually they get a \$100-million in additional power sales from the co-ops.

Quote: "With the job now virtually completed, REA continued to expand."

Fact: Another line right out of the utility propaganda book. Does Reader's Digest advocate that power companies stop investing \$4 billion a year to expand service to customers already receiving service? Rural customers' needs grow the same as urban customers.

Quote: "REA co-ops with their 2-percent subsidy and tax-free advantages are competing unfairly with private business."

Fact: The power business is a monopoly and not "private competitive enterprise" as the term is used in the business world. Reasonable profits are guaranteed by State regulation. Usually business risks are ruled out. REA interest loan rates and nonprofit operations are not factors in a utility's ability to carry on its business in its own service areas. There is no competition between electric systems. It is outlawed by State regulations. The interest rate and nonprofit State statutes are equalizers for the co-op to help overcome the lack of density in serving marginal territories no one else wanted. Power companies have the same tax advantages if they would forego profits.

Quote: "REA has barged into the industrial loan business, an activity far removed from its original design."

Fact: More utility propaganda. Reader's Digest writers carefully omit the fact that REA does not make commercial loans as described in the article. The House Oversight Committee held hearings on power company claims, such as Reader's Digest voices, and concluded there was nothing to substantiate the criticisms of funds loaned to develop ski resort equipment and the like.

Quote: "REA-subsidized co-ops use their tax-free earnings for a variety of private, profitmaking ventures."

Fact: This utility propaganda line was investigated by the Congress several years ago and found to be completely untrue.

Quote: "Many co-ops have been allowed to draw more funds from REA's kitty despite remarkable records of prosperity. REA recently admitted that by June 1962, 217 borrowers had piled up cash and liquid reserves equaling more than 20 percent of the entire value of their plants."

Fact: A good answer is to use the authors' own words, further along in the article: "During REA's entire history only nine co-ops have thus paid off their Government loans out of their earnings. This is an incredibly poor record."

It is utility practice to have 40 percent in reserves of the plant value. By the authors' own statement, less than a fourth of the co-ops have half that amount. Here is a sound reason why the REA financing must be continued until the co-ops are on a stable financial footing.

Incidentally power companies do not pay off their capital debt—they refinance it, something the co-ops cannot do under loan contract terms with the Government. Starting from scratch, co-ops have to pay off their loans and create their own equities at the same time—something that would give power company executives the fits.

Quote: "Most alarmingly, REA is pouring out gigantic funds for the construction of co-op powerplants."

Fact: Alarming to whom? Why, to power companies, of course, who act like elephants with a mouse. Consumers need greater supplies of power, whether they are customers of power companies or co-ops. The co-op plants do not supply power-company customers, only their own.

Quote: "Regarding the Indiana generating loan, it was a pure giveaway, for private enterprise with adequate power facilities was able and willing to supply energy to these co-ops at reasonable rates."

Fact: This loan has met every test invoked by power companies and been proved sound and in the public interest.

Quote: "Description of Colorado-Ute G-T development."

Fact: The account is taken from power company propaganda sheets and is lacking in credulity and authenticity. Reader's Digest fails to mention the loan was approved by the Colorado regulatory agency.

Quote: "The simple fact is that they (co-ops) no longer need to be propped up by the taxpayers."

Fact: The variable factors involved in some 1,000 rural situations across the Nation cannot be reduced to a simple fact which covers a majority, if not all of the problems. Present financing conditions have made possible service to nearly 20 million people living in over one-half the land area of the United States receiving electric service. Local rural leaders, working without pay to improve their living conditions, organized nonprofit organizations to do the job private utilities did not do. This great achievement of free citizens solving problems corporate management could not do should make an inspirational article for Reader's Digest. Unfortunately, its editorial policy permits no letters from readers or rebuttal to anything appearing in its pages.

NEEDED: A JOINT COMMITTEE ON CENTRAL INTELLIGENCE

(Mr. ZABLOCKI asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. ZABLOCKI. Mr. Speaker, I wish to advise the House that I have once again contacted the chairman of the House Committee on Rules, urging a hearing and favorable consideration of House Concurrent Resolution No. 2, legislation which provides for the establishment of a Joint Committee on Central Intelligence.

The recent, unprecedented press conference held by the Central Intelligence Agency to comment on the state of the Soviet economy indicates a severe departure from past CIA practices. Unfortunately, under the present arrangement Congress cannot know the circumstances surrounding this apparent policy shift nor assess whether it is in the national interest.

Numerous resolutions have been introduced into Congress in recent years calling for the creation of a joint congressional committee which would conduct continuing studies of intelligence activities and the problems faced by pertinent Government agencies. I myself have sponsored such a resolution in every Congress since 1953. Similar suggestions have been made by the Hoover Commission and endorsed by many thoughtful persons throughout the country.

The time has long since come for the enactment of legislation of this kind.

Mr. Speaker, two points must be emphasized in any discussion of a Joint Committee on Central Intelligence.

First, that the proposed committee in no way implies criticism of the loyalty, the patriotism, or the public spiritedness

of our CIA employees. They are doing excellent work in an area which is vital to the safety and well-being of the United States.

It is my contention, however, that the intelligence activities carried on by the United States are not exclusively a function of the executive branch of our Government. Congress too, as the elected representatives of the people, must be informed on intelligence matters. This view is shared by other supporters of the Joint Committee on Central Intelligence.

Second, it must be made clear that the proposed legislation in no way reflects criticism or disapproval of the committees which currently handle CIA activities and appropriations. Their members are conscientiously trying to do the best they can.

However, the Members of Congress who serve on these committees often are busy with other legislative matters and cannot devote the time or energy to intelligence matters that they might deserve. For example, it has come to my attention that the Central Intelligence Agency Subcommittee of the Armed Forces Committee was able to meet only five times last year.

Unfortunately the result of the present system is all too often a piecemeal, hit-and-run examination of the policies and activities of the CIA and other U.S. intelligence-gathering agencies by Congress.

There is no single committee equipped to deal with these matters. This situation has opened the door to potentially dangerous abuses. It has produced an atmosphere of suspicion and uncertainty about the American intelligence community.

The remedy to this problem lies in creating a Joint Committee on Central Intelligence, patterned after the highly successful Joint Committee on Atomic Energy.

As proposed in House Concurrent Resolution 2, the committee would be composed of seven members from each body to be appointed respectively by the Speaker of the House and the President of the Senate. Not more than four Members from each body could be of the same political party.

The duties of this committee would be to conduct a continuous and comprehensive review of the activities and problems of all U.S. agencies engaged in intelligence matters—the Central Intelligence Agency, the Defense Intelligence Agency, the National Security Agency, and others.

These agencies would be required to keep the committee completely and currently informed of their operations. From time to time, the joint committee would report its findings and recommendations to Congress.

In this way Congress will gain sufficient expertise and experience to deal with intelligence matters wisely and well.

Mr. Speaker, former President Harry S. Truman, under whose leadership the Central Intelligence Agency was created, has written an article in which he expressed his fear that the CIA had strayed from strict intelligence gathering and was engaging in making foreign policy.

"There is something about the way the CIA has been functioning," he wrote, "that is casting a shadow over our historic position and I feel that we need to correct it."

The fears which Mr. Truman has expressed have been voiced by others before him. They may or may not be true. But until a Joint Committee on Central Intelligence is created, the Congress will be unable to know the truth, and to act accordingly.

It is for this reason that I have called upon the Rules Committee to hold early hearings on this legislation and to report it favorably to this body as soon as possible.

Mr. ROGERS of Florida. Mr. Speaker, will the gentleman yield?

Mr. ZABLOCKI. I yield to the gentleman from Florida.

Mr. ROGERS of Florida. Mr. Speaker, I want to concur in the thoughts the gentleman has expressed. What he has suggested is certainly needed and I hope that the Committee on Rules will take this up at the first opportunity.

Mr. ZABLOCKI. I thank the gentleman for his contribution.

CUBAN INVOLVEMENT IN PANAMA CRISIS

(Mr. SHRIVER (at the request of Mr. SIBAL) was granted permission to extend his remarks at this point in the Record and to include extraneous matter.)

Mr. SHRIVER. Mr. Speaker, in 1962 the late President Kennedy declared it to be the policy of the United States not to permit the Castro regime in Communist Cuba to export communism or its aggressive purposes by force or threat of force. The President declared:

It will be prevented by whatever means may be necessary from taking action against any part of the Western Hemisphere.

One aspect of the United States troubles in Panama which deserves the closest surveillance and investigation by our Government and the Organization of American States is the report of operations by Castro agents in the Canal Zone. Only a week ago the Secretary of the Army, upon his return from Panama, confirmed the arrest of at least 10 of these agents.

Cuba has been quietly creeping toward the Panama Canal as evidenced by recent upheavals in Venezuela and Colombia and now the arrest of Cuban Communists in Panama.

The canal represents one of the loopholes in this Nation's efforts to impose an economic squeeze upon Castro. For example, in fiscal year 1962, 90 ships bound for Cuba and 187 ships carrying cargo from Cuba used the canal. For the first 9 months of 1963, 30 ships bound for Cuba and 61 ships from Cuba passed through the canal.

Mr. Speaker, the administration's efforts to negotiate with fairness and firmness, and as a "good neighbor," with the Panamanian Government will be frustrated and endangered if the Communists are permitted to incite riots and upheaval on the scene.

It is evident that Cuban communism is being exported into a number of trou-

bled Latin American nations, and possibly as far away as Zanzibar. I join in urging our Government and the Organization of American States to investigate immediately the extent of Cuban operations in Panama.

It is the hope of most Americans that the administration clarify our policy regarding Castro's Cuba before other Panamas crop up in this hemisphere.

COMMISSION ON EXPENDITURE POLICY

(Mr. CURTIS (at the request of Mr. SIBAL) was granted permission to extend his remarks at this point in the RECORD and to include extraneous matter.)

Mr. CURTIS. Mr. Speaker, I am today introducing, along with my minority colleagues on the Joint Economic Committee, legislation to establish a Commission on Federal Expenditure Policy. Identical bills are being introduced in the House by the gentleman from New York [Mr. KILBURN] and the gentleman from New Jersey [Mr. WIDNALL]; and the legislation is being introduced in the Senate by Senator JACOB K. JAVITS, the senior Senate Republican on the Joint Economic Committee, and by Senator JACK MILLER of Iowa and Senator LEN B. JORDAN of Idaho.

The bill would establish a 16-member bipartisan Commission composed of members from the executive branch, Congress, and private life, which would begin the vital task of reviewing expenditure policy of the Federal Government. Much attention has been directed to the effects of the Government's tax policy upon our economic growth and employment. Little or no attention has been paid to expenditure policy. Yet there is no doubt that expenditure policy is at least as important as tax policy in its effects on our economy.

The Commission would be entrusted with the task of bringing some of the Nation's best minds to bear on the crucial issues of expenditure policy. It would be established on the model of the two Hoover Commissions, which did such excellent work for the Nation some years ago.

It should be emphasized that the Commission is not simply designed to seek and eliminate waste and inefficiency in Government. The art of expenditure policy is that of establishing priorities among needed and efficient programs. Eliminating waste and inefficiency is simply a matter of identification. Establishing priorities between good programs requires careful study and good judgment.

A blue-ribbon Commission, such as this bill would set up, would provide useful guidance for the executive and the Congress as they grapple with the issues of Federal expenditures in coming years. The reductions that have been announced in the estimates for the fiscal 1965 budget represent but a first step forward. It remains to examine expenditure policy from a broader and more long-range point of view. Specifically, the Commission would make stud-

ies and policy recommendations in the following areas:

First. Establishment of spending priorities among Federal programs, separating the desirable from those that are essential, in order to serve as a guide to the administration in drawing up the budget, particularly in years of expected deficits.

Second. Appraisal of Federal activities in order to identify those programs which tend to retard economic growth and for which expenditures should be reduced or eliminated.

Third. Improvement of the Federal budgeting and appropriations process in order to increase the effective control of expenditures.

Fourth. Examination of responsibilities and functions which are now assumed by the Federal Government, but which could be better performed and with superior effectiveness by the private economy.

Fifth. Review of Federal responsibility and functions in order to determine which could be better performed at the State and local levels.

Sixth. Improvement of Government organization and procedures in order to increase efficiency and promote savings, including a review of the recommendations of the Hoover Commission in order to determine how those already implemented have worked out in practice and whether those not yet implemented should be given further consideration.

Seventh. Determination of policies with regard to the level of user charges and fees to be made for special services furnished to members of the public by the Government.

The sponsors of the legislation earnestly hope that President Johnson will give the bill his complete support. I ask unanimous consent that a copy of our letter to President Johnson dated January 10, requesting his backing of the bill, as well as a copy of the bill itself, be included in the RECORD.

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
January 10, 1964.

The President,
The White House,
Washington, D.C.

Mr. PRESIDENT: As the minority members of the Joint Economic Committee, we have had a lively interest in the national economic debate which was touched off when the late President Kennedy early last year submitted a program to cut taxes and increase spending at a time of already large budget deficits.

In our minority views on the Joint Economic Committee's 1963 annual report, we expressed our support of tax reduction and reform. At the same time, however, we urged the administration to undertake a firm and effective program of expenditure control and to review thoroughly the Government's expenditure policy.

Expenditure policy—which is too often neglected—is at least as important as tax policy in its impact on our Nation's economic growth and well-being. We believe that final passage of the tax bill by Congress would lend added urgency to the long overdue review of expenditure policy.

In a letter to President Kennedy dated March 19, 1963, as well as in our minority views already referred to, we suggested one means to this end. We urged the President to appoint a Presidential Advisory Commis-

sion on Federal Expenditures which would conduct a thorough, objective, and nonpartisan review of expenditure policy.

In a letter dated May 25, 1963, Budget Director Kermit Gordon rejected our suggestion. Mr. Gordon said that "established procedure" was satisfactory and that an advisory commission probably could not make "a direct or significant contribution" to resolving the issues of public policy involved. Mr. Gordon said, in fact, that the efforts to such a commission "by obscuring public understanding as to the locus of responsibility for resolving such issues * * * might well lead to an opposite result."

We find Mr. Gordon's confidence in "established procedure" difficult to share in view of the chronic budget deficits which plague the Government. The Commission we suggest would not overturn established budget procedures, but rather it would supplement and, hopefully, improve upon them.

Mr. Gordon's second point totally ignores the highly useful services performed by a large number of Presidential advisory commissions. To name but a few, the Clay Commission, the Advisory Commission on Labor-Management Policy, the two Hoover Commissions, and the Randall Commission, have clearly made important contributions to the development of sound public policy.

Since the Budget Director's letter last spring, public and congressional concern over expenditure policy has become even more widespread. It should be emphasized that this concern embraces more than simply the elimination of waste and inefficiency in Government. Once waste or inefficiency is identified, there is little difficulty in getting general agreement to eliminate it. More difficult and more important in terms of savings is the task of continually reviewing the usefulness of existing programs and of establishing priorities among needed and desirable new programs.

Because of this widespread concern over expenditure policy, we are once again putting forward our suggestion for a Commission on Federal Expenditure Policy. The idea has now been embodied in identical bills which we are introducing in the House and the Senate. Such a Commission would serve as a logical expression of your own concern over the level and trend of Federal expenditures in recent years, and we earnestly hope you will give it your full support. The reductions made in the estimates for the fiscal 1965 budget represent but a first step forward. It is now time to examine expenditure policy from a broader and more long-range point of view. It is this function which the Commission we suggest would perform.

We envision that the Commission would be composed of Government members, private citizens from business, labor, education, the professions, and Members of Congress, equally from both parties. The work of the Commission, assisted by a professional staff, should parallel the 2-year period over which the pending tax bill is scheduled to take effect. During this period, the Commission should conduct studies and periodically make public its recommendations in the following areas:

(a) Establishment of spending priorities among Federal programs, separating the desirable from those that are essential, in order to serve as a guide to the administration in drawing up the budget, particularly in years of expected deficits.

(b) Appraisal of Federal activities in order to identify those programs which tend to retard economic growth and for which expenditures should be reduced or eliminated.

(c) Improvement of the Federal budgeting and appropriations process in order to increase the effective control of expenditures.

(d) Examination of responsibilities and functions which are now assumed by the Federal Government, but which could be better

performed and with superior effectiveness by the private economy.

(e) Review of Federal responsibility and functions in order to determine which could be better performed at the State and local levels.

(f) Improvement of Government organization and procedures in order to increase efficiency and promote savings, including a review of the recommendations of the Hoover Commission in order to determine how those already implemented have worked out in practice and whether those not yet implemented should be given further consideration.

(g) Determination of policies with regard to the level of user charges and fees to be made for special services furnished to members of the public by the Government.

The recommendations of an objective and bipartisan Commission of the kind described should command widespread support among the public and within the Congress. Its proposals would offer a sound basis upon which to begin the reform of Federal expenditure policy.

We earnestly hope you will give this recommendation your early and favorable consideration.

Respectfully yours,

THOMAS B. CURTIS.
CLARENCE E. KILBURN.
WILLIAM B. WIDNALL.
JACOB K. JAVITS.
JACK MILLER.
LEW B. JORDAN.

(Mr. WIDNALL (at the request of Mr. SIBAL) was granted permission to extend his remarks at this point in the RECORD and to include extraneous matter.)

[Mr. WIDNALL'S remarks will appear hereafter in the Appendix.]

CONTRACT TO SPERRY SIGNED IN RECORD TIME

(Mr. WILSON of Indiana (at the request of Mr. SIBAL) was granted permission to extend his remarks at this point in the RECORD and to include extraneous matter.)

Mr. WILSON of Indiana. Mr. Speaker, last December 10 I told the House of the way in which Wright-Patterson Air Force Base at Dayton, Ohio, had wasted U.S. tax money buying a radar altimeter identified as the AN/APN 150. I reported that the Air Force conducted a two-step procurement for this item which resulted in an award of contract to the Sperry Rand Corp., Great Neck, N.Y., for a total price of \$199,977.74. The system price was approximately \$4,671.

The next two bidders were Emertron, Inc., Jersey City, N.J., at \$750,000 and Raytheon, Waltham, Mass., at \$887,535. These prices, it would seem to me, would indicate to an alert procurement official that either Sperry had overlooked some significant cost factors, or Emertron or Raytheon had overestimated these same costs.

Regardless of this, the Air Force rushed to award a contract to Sperry, signing it just 9 days after bids had opened.

To say that I was shocked in March 1963, to learn the Air Force had awarded a sole-source contract for this same equipment to Sperry for an average price of over \$11,000 per unit according to the Air Force Secretary would be stating it mildly. In committing over \$5.5 million

of tax money, the Air Force allowed the price to jump almost three times the competitive price.

Those were the salient facts I mentioned to the Members of the House on December 10, 1963.

Subsequent to that speech, I received a letter dated December 13, 1963, from Air Force Secretary Eugene Zuckert, outlining the facts as viewed by Air Force personnel. I was requested to insert this letter in the RECORD. In compliance with that request, the letter is inserted at this point in my remarks.

DEPARTMENT OF THE AIR FORCE,
OFFICE OF THE SECRETARY,
Washington, December 13, 1963.

DEAR MR. WILSON: I have noted with considerable interest your speech of December 10th on the floor of the House of Representatives concerning Air Force purchase of radar altimeters. It is very important for the Air Force to have the confidence of the Congress and the public, and we are, therefore, always aware of our responsibility to the American taxpayer when awarding contracts. You can understand my desire that you have all of the correct information concerning this matter. I have personally reviewed these facts concerning the procurement and have found that the Air Force did not award a contract to bail out the contractor, as you contended. The Air Force carefully determined the minimum quantity of a vitally important item that, because of urgency, had to be procured from the only source which had produced a fully tested and qualified item. The balance of our requirements is being procured competitively. The details concerning the procurement are set out below.

The AN/APN 150 is an airborne radar altimeter that gives a continuous readout of an instrument showing exact altitude from 0 to 5,000 feet. It was developed as a replacement for the APN-22, which we originally intended to use in the B-52H model aircraft. The APN-22 has been in the inventory for some time and was successful at the higher altitudes for which it was originally obtained. These altitudes were considerably above the current low altitude requirement for the B-52H aircraft operations. When used at the lower level in the B-52H environment, the APN-22 failed. This created an immediate need for the development and production of an altimeter which would successfully and reliably perform its function in the low-level environment. At this point you should know that low-level use of aircraft of this type became a tactical necessity to permit survival of the aircraft under certain combat conditions. Crews operating these aircraft were highly trained and efficient at the higher altitudes but it became necessary to begin immediately a training program for operation of these systems at extremely low altitudes. This training could not begin until we could obtain radar altimeters which would reliably operate in the B-52 environment at such low altitudes.

The Air Force thereupon quickly surveyed industry and found three radar altimeters in existence which could possibly fulfill the immediate requirement at least on an interim basis, pending development of a standard item. These three instruments were subjected to very limited flight tests in the B-52, and only one of them survived. This was the model provided by Emertron. The Air Force immediately attempted an urgent sole-source procurement of some of these altimeters from Emertron and the buying agency was granted authority by the Assistant Secretary of the Air Force (Material) to do so. The authority had been granted with the understanding that Emertron would provide data which could subse-

quently be used for competitive procurement. However, Emertron asserted claims to certain proprietary rights and refused to agree to provide procurement data. Thus the authority which had been granted by the Assistant Secretary was negated and the Air Force then proceeded, even on sufferance of loss of time, to institute a competitive procurement under the two-step advertising procedure. It was correctly stated in your speech that the results of this procedure led to an award to the low bidder, Sperry Gyroscope, for development and production of 42 sets. As you also stated, the resulting contract was fixed price in the amount of \$199,977.84. Qualification of the first article was a contractual requirement and was to be accomplished in part by flight test in the B-52H operational environment.

Award of this contract was made on January 19, 1962, and first article was to be delivered to the Air Force in November 1962. Item deliveries began in August 1962 and flight tests began in the same month. Qualification tests were completed in March 1963 and resulted in complete qualification of the altimeters. Thirty-two B-52H flights, totaling 138 hours were expended in these tests. It is important to note at this point that costs to the Air Force involved in the conduct of the flight and other tests exceeded \$2 million.

By the time qualification tests were completed, the Air Force had requirements for 1,115 of these sets. Of these, 703 were for the B-52 fleet, and the remainder were needed for spares, and for requirements that had developed for other aircraft in the inventory. Upon review of the total requirements, it was determined that competitive procurement was appropriate. However, the urgency connected with the need to commence low-altitude training of B-52 combat crews led to a determination that a portion of the total requirements should immediately be placed on contract. The quantity for which no delay could be tolerated was computed to be 489 sets. Knowing the amount of time that had been required for Sperry to produce and test their first article, and knowing also of the more than \$2 million cost involved in qualification testing, it was determined to be in the best interest of the Government to immediately negotiate with Sperry for the 489 sets so urgently required. The remaining quantities were being competitively procured.

It may interest you to know that Emertron was aware of the urgent requirement for these units and submitted an unsolicited proposal to provide them. The amount quoted by Emertron in their unsolicited proposal was \$5,129,200, not including testing. For a portion of the testing, that is reliability testing as distinguished from qualification testing, Emertron wanted an additional \$320,610. Thus, their proposal was \$5,449,810. The contract which was negotiated with Sperry is a fixed-price incentive contract which cannot exceed \$5,607,358. Thus, the Emertron unsolicited proposal was \$102,868 below the maximum liability of the Government on the Sperry contract. This was for an Emertron model which had not been submitted to qualification testing and for which such testing would be mandatory. A minimum of 4 months testing time and costs to the Air Force of over \$2 million would result. You now have the facts by which the Air Force was faced at the time a contract with Sperry on a sole-source basis was decided upon.

The statement in your speech was correct that Sperry incurred a heavy loss in fulfilling their first contract.

Preliminary information available to us from our auditing system indicates that the unit cost to Sperry of the 42 sets on the first contract was about \$38,100. The unit price to the Air Force for these 42 sets was \$4,671. The follow-on contract for 489 systems was